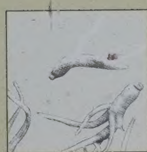
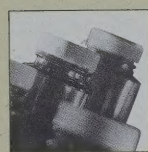
1998 *Annual Report*



chai-na-ta

Corporate Profile

Chai-Na-Ta Corp. is the largest single grower and leading supplier of North American ginseng for the nutraceutical industry worldwide. Through its subsidiaries, the Company processes and distributes the bulk root produced by its farming operations, and also produces a wide range of value-added products, from ginseng teas to standardized extract powders.

Chai-Na-Ta participates in the farming, bulk processing and distribution, manufacturing and marketing segments of the nutraceutical industry, controlling each level of its operations to ensure the highest product quality. Through its strong focus on research and development and strategic alliances with major nutraceutical manufacturers, the Company is leading the industry in developing global markets for North American ginseng.

Chai-Na-Ta is based in Langley, British Columbia, and has operations in Canada, the United States, Barbados, Hong Kong and China.

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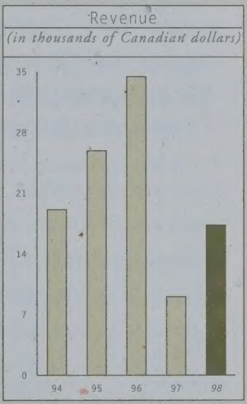
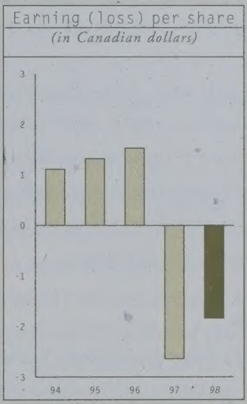
- Revenues increased by 91 percent over fiscal 1997
- Operating costs decreased by 25 percent over fiscal 1997
- Harvest totalled 1.13 million pounds, a 28.5% increase over 1997. We also increased our yields by 25% over 1997
- Chai-Na-Ta secured greater financial flexibility by restructuring its long-term debt
- Chai-Na-Ta was the first company to successfully market standardized North American ginseng whole root extract powder to commercial customers in the United States
- Chai-Na-Ta signed an exclusive agreement with a Japanese Pharmaceuticals extraction processing facility in China, to produce standardized North American ginseng whole root extract powder
- The Natural Sciences and Engineering Research Council of Canada (NSERC) awarded a 5-year, $222,000 grant to Chai-Na-Ta and the University of British Columbia to further its research into the nutritional and medicinal benefits of North American ginseng





FINANCIAL RESULTS *(Stated in thousands of Canadian dollars)*	1998 $	1997 $
Revenue	17,294	9,053
Pre-tax loss	(10,887)	(15,339)
Net loss	(7,417)	(10,636)
Cash applied to operations	(3,742)	(5,607)

FINANCIAL POSITION *(Stated in thousands of Canadian dollars)*		
Working Capital	21,078	19,357
Shareholders' equity	21,232	28,358
Total assets	64,610	74,234

PER SHARE AMOUNTS *(Stated in Canadian dollars)*		
Loss per share - basic	(1.84)	(2.64)
Loss per share - fully diluted	(1.84)	(2.64)
Cash applied to operations	(0.93)	(1.39)
Book value per share	5.28	7.05

The Industry in Crisis

The end of 1998 finds the North American ginseng industry in crisis. Year after year, prices for bulk root have dropped beyond lows that anyone could have predicted. These continuing low prices are resulting in significant losses for all companies in our industry for the third year in a row.

In early 1999, prices reached an all-time low. No grower in the industry today is selling North American ginseng above cost. As a result, many smaller growers have stopped planting ginseng. Others have abandoned their crops altogether. The larger growers are all struggling under crippling debt incurred to continue operations.

For all of that, Chai-Na-Ta is faring better than most. The Company has continued to achieve small successes in this very difficult operational environment. Many of the strategic decisions made over the last 5 years have provided us with the foundation from which we have been able to not only survive, but innovate.

A Strong Foundation

During 1997, Chai-Na-Ta made the strategic decision to hold back our harvest for sale in 1998, when prices were expected to increase. While we were able to realize some increases over 1997 prices, the commodity price of bulk root continued to fall in 1998. The positive aspect of this strategy is that it has allowed the Company to spread our revenues over the entire year, resulting in improved cash flow.

Our investment in Chinese manufacturing capability has not yet shown positive returns from a bottom-line standpoint. Research costs associated with the development and testing of a standardized North American ginseng product have been significant. However, our decision not to abandon these initiatives during these difficult years has begun to pay off for the Company, providing us with the capability to seize opportunities presented by changes to USFDA guidelines in 1998.

Successes in 1998

Chai-Na-Ta managed the challenges of this difficult year by staying focused on our core competencies: farming operations, the distribution of bulk root, the development and sale of pure ginseng extract powder, and our CNT2000 research and development program. These core strengths will provide us with the long-term capability to not only survive the industry crisis, but to emerge with the strength to take advantage of opportunities that present themselves.

Because of the problems in the industry, our financial results are, predictably, disappointing. What is most unfortunate, though, is that these results hide many of the successes we have achieved this year.

A Chai-Na-Ta First

Standardized North American Ginseng Whole Root Extract Powder

Chai-Na-Ta was one of the very few companies to successfully produce and market significant volumes of standardized North American ginseng whole root extract powder for the U.S. market.

Chai-Na-Ta's strength in research and development, combined with the assistance of our Chinese joint venture partner Sinopharm and our alliance with a Japanese pharmaceutical extraction facility in China under an exclusive agreement, have enabled our Company to develop the technology to produce this high quality product for the U.S. nutraceutical market. We shipped our first order to a major U.S. nutraceutical manufacturer in the fourth quarter of fiscal 1998. The supply arrangement is continuing into 1999.

This was a significant achievement in our efforts to reduce our future exposure to commodity pricing and diversify the Company's revenue base. Returns generated on the standardized whole root extract powder are higher than the price for bulk root.

Although ginseng prices remained weak for most of the year, and again negatively affected the Company's financial performance, our decision to hold 1997 root in inventory made more root available for sale over the course of the year. Bulk root sales volume for fiscal 1998 totalled 890,000 pounds, an increase of 549,000 pounds over 1997, resulting in revenues of $17.3 million for 1998, a 91 percent increase over 1997 revenues of $9.1 million. The Company is continuing to pursue this sales strategy, holding our 1998 harvest in inventory for sale throughout 1999.

Sales of value-added processed products contributed 55 percent of the Company's revenues in 1998, an increase of 78 percent over the previous year. However, weak ginseng prices adversely affected our consolidated gross margins and masked the positive margin contribution which we achieved from value-added processed product sales.

During 1998, we continued to focus on reducing overhead costs by streamlining operations throughout the Company. As a result of the commitment and efforts of everyone in the Company, cost-cutting measures reduced our selling, general and administrative expenses by approximately $2.0 million, or 25 percent, over fiscal 1997.

In late 1998, we successfully restructured our long-term financial obligations to provide greater financial flexibility for the Company. Our debt repayment schedule has been extended, resulting in reduced principal payments and leaving more working capital to support continued operations. The extensions have been structured for maximum flexibility, giving us the opportunity to refinance when our financial position improves. These new agreements demonstrate the confidence that our major lenders, John Hancock Mutual Life Insurance, HSBC Private Equity Management Limited and the Hongkong Bank of Canada, have in Chai-Na-Ta.

During late 1998 the USFDA began more stringent enforcement of the requirements for ginseng. As a result, the supply of ginseng for consumer products in the United States has been diminished. Through research and development programs with our joint venture manufacturing partners, we have been working towards producing significant quantities of a standardized North American ginseng extract powder that meet these standards and the demands of the U.S. dietary supplement market. All current production has been sold to a major U.S. nutraceutical manufacturer. We have also secured the world-wide rights to distribute this product. This value-added product has provided higher margins for our company.

This year's harvest was our largest ever, setting a new world record for volume of North American ginseng of 1.13 million pounds. Our yield per acre was significantly improved, from 2,247 pounds per acre in 1997 to 2,799 in 1998, representing a 25 percent increase. These results were achieved through better growing conditions and Chai-Na-Ta's expertise in plant science.

Staying Focused

During 1998, we focused on our strength as one of the lowest-cost producers of North American ginseng and continued to streamline our operations. Even with reduced resources, we increased production at the farm level, harvesting 404 acres and planting 416 acres. We believe this strategy will pay off in 3 to 4 years, when the available supply of North American ginseng is significantly lowered as a result of the current industry crisis.

Our strategy for long-term growth and profitability is to divert a significant portion of our bulk ginseng root to the production of value-added processed products such as standardized extracts, powders, capsules and ginseng-formulated products which generate higher returns. We made significant headway in 1998 in achieving this, and are expecting to divert as much as 40 percent of our entire harvest towards these programs in future years.

Surviving the Crisis

The crisis is not yet behind us. Our expectations for improved bulk root prices in early 1999 have already been dashed, with the year starting out with the lowest prices ever. 1999 will be a year of casualties.

During this past year, a great deal of effort on the part of our management group has gone into reassessing the Company's current position in the nutraceutical industry and looking strategically at the future, with a view to

rebuilding and maintaining our financial position. In order to survive this industry crisis, Chai-Na-Ta has taken a number of decisions since our fiscal year end, some of which you will see reflected in provisions to our 1998 results. The litmus test of each of these actions was two-fold: does it generate positive cash flow? and does it provide us with a long-term strategic foundation?

Since year-end we have consolidated our Chai-Na-Ta (Asia) operations and scaled them back to focus on brokering bulk root and supporting our pure extract powder program. We have also scaled back our Unique Formulations operations, continuing to supply existing customers but not undertaking any new product or customer initiatives.

During February 1999 we made the decision to shut down our Chai-Na-Ta Mexico program because it has not reached the level where it is contributing to our cash flow. Because of our financial position, we can no longer afford to support continued efforts in that market. We are currently assessing a number of options, including franchising, which will allow us to recover some portion of our investment.

Our 1998 results reflect a 50 percent allowance for the write-down of our interest in the Dalian Pegasus Pharmaceutical Co. Ltd. This world-class facility, which possesses valuable pharmaceutical licenses, has never approached significant levels of capacity due to a lack of working capital. Chai-Na-Ta is currently in discussion with a number of parties to manage this operation and infuse new working capital.

We believe that ensuring an on-going supply of bulk root, combined with the development and implementation of standardized North American ginseng products, is the future of the Company. In 1999, we will continue to fully support our research and development efforts on CNT2000. Studies at the University of Toronto, Harvard Medical School, and the University of British Columbia have been demonstrating very exciting results, and we are confident that efficacy claims will be able to be made regarding this standardized North American ginseng product.

CNT2000: A Vital Investment

Our focus on research and development is a key element in Chai-Na-Ta's business strategy. In fiscal 1998, the Company continued to participate in research projects directed at proving product efficacy and developing products in the natural supplement industry that will enable us to continue to grow our business.

Chai-Na-Ta's CNT2000 program plays a vital role in developing new ginseng-based nutraceutical products. In 1998, work continued on the use of CNT2000, a standardized North American ginseng extract developed by Chai-Na-Ta, in studies on CNT2000's health benefits on breast cancer, heart disease, diabetes and aging conducted by highly regarded institutions. Government and industry continued to support these studies by providing funding. For example, the University of Toronto is currently conducting a clinical study at St. Michael's Hospital on the effects of CNT2000 on diabetes, under a grant from the Ontario Ministry of Agriculture, Food and Rural Affairs (Tobacco Diversification program). Research on CNT2000's anti-oxidant effects, now in its third year at the University of British Columbia, was extended with the award of a substantial five year grant from the Natural Sciences and Engineering Research Council of Canada (NSERC) in 1998.

Through our work with the scientific research community, Chai-Na-Ta has established a "scientific expert network" comprised of world renowned medical specialists and scientists on natural products. This distinguished group includes: Dr. Y. Chen, Professor of Natural Product Chemistry at the Shenyang Pharmaceutical University; Dr. Dennis Awang, Botanical chemist specializing in natural products; Dr. Rosemary Duda, Chief of Surgical Oncology at the Beth Israel Hospital, Harvard Medical School; Dr. Vladimir Vuksan, an assistant professor in Nutritional Sciences, of St. Michael's Hospital (University of Toronto); and Dr. David Kitts, a food scientist at the University of British Columbia.

The level of commitment demonstrated by both the research community and government funding represents a strong vote of confidence in our work on North American ginseng. So far, all published data on those scientific studies have shown very exciting and encouraging results. We plan to launch CNT2000 in the manufacturing segment of the industry in fiscal 1999, subject to the strength of the research and the Company's resources.

Our critical task in 1999 will be to secure sufficient financing to continue to operate at these reduced levels. The management group is pursuing every viable alternative in this regard.

New Regulations

Since U.S. congress passed the Dietary Supplement Health and Education Act (DSHEA) in October 1994, the natural products industry has taken off dramatically. The growth of the industry in the last five years has been an astonishing rate of 25 percent annually. Under DSHEA, manufacturers are able to make structure/function claims for their products so that general consumers can easily understand the intended health benefits of the product(s). Moreover, the recently proposed Nutraceutical Research and Education Act (NREA) which is to be introduced during the 106th congress meeting will surely benefit Chai-Na-Ta significantly. The NREA is expected to provide incentives for companies to do research on nutraceutical products. One possible incentive is the granting of exclusivity. If research funded by a manufacturer shows that a particular nutraceutical product is effective against a disease, the manufacturer would have the right to put functional claims on the label and apply for the exclusive right to manufacture a product at the dosage used in the research.

The Years Ahead

The three to four year growth cycle of North American ginseng impacts production and supply, and ultimately pricing. In 1999, we will see the beginning of an anticipated decline in production, and are expecting production levels to fall off significantly within the next three years, the result of current industry turmoil. At the same time, there is no expectation that the demand for bulk root in traditional Asian markets will decline, and it is expected that demand in North American markets will increase. Basic economics tell us that decreased supply and increased demand are likely to result in increased prices.

The only unknown is exactly when that will happen. If Chai-Na-Ta is able to maintain our current levels of plantings, we expect that in 3 to 4 years we will be producing in excess of 25 percent of the world's supply. Combined with our strategy of diverting up to 40 percent of our harvest to value-added processed product programs, which generate better gross margins for the Company than bulk root, our ability to affect world supply can also have an impact on commodity prices.

Chai-Na-Ta has undergone many changes these last three years as a result of the North American ginseng industry crisis. Although we have been forced to abandon many of our value-added initiatives, we believe that they were strategically sound – we are abandoning them because we can no longer afford to fund them. These initiatives have had a significant impact in reducing our exposure to commodity price fluctuations.

Throughout 1999, we will continue to concentrate on our core competences: farming and distribution of bulk root, the development and sale of pure extract powder, and research and development programs for CNT2000. The core structure of the organization, resulting from our recent consolidation, will allow us to not only survive, but take full advantage of future opportunities.

In January we accepted the resignation of two members of our Board: Mr. Carl Pines and Mr. David Rennie. Both have made a significant contribution to the Company, and we thank them for their service. We have subsequently appointed Dr. Dennis Awang and Dr. Don Rix to the Board.

I would like to thank the Board of Directors, our management team, our employees and our shareholders who have consistently demonstrated their commitment and confidence in Chai-Na-Ta during the past year. Our successes are due to them.

GGill

Gerry A. Gill
President & C.E.O.
March 22, 1999

Farming

Bulk Processing & Grading

The Industry's Largest Grower

North American ginseng is grown on farms in Wisconsin, Ontario and British Columbia. In 1997 there were approximately 7,500 acres under cultivation, with an average crop size of one to five acres.

Chai-Na-Ta produces 15 to 20 percent of the total world production of North American ginseng on 1,469 acres in Ontario and British Columbia which are cultivated by Chai-Na-Ta Farms Ltd. and its joint venture partners. As the industry's largest grower, the Company enjoys substantial economies of scale which keep its production costs approximately 30 percent lower than the industry average.

Moisture, light and shade conditions during the three to five year growth cycle, as well as harvesting, washing and drying procedures affect the quality of the ginseng root. In addition to being a low cost producer, in more than 15 years of farming, Chai-Na-Ta has developed the plant science knowledge and harvesting techniques required to produce high quality yields.

Production Trends

Since 1990, production of North American ginseng has nearly tripled, peaking at more than 5.5 million pounds in 1997. The large supply put pricing pressure on producers, with the result that farm gate prices for bulk root fell dramatically. In the last two years, low prices and poor yields have forced many smaller growers to discontinue operations. Production is estimated to decline by up to 15 percent over the next three to five years.

Products for Traditional Asian Markets

After harvesting and drying, producers sell their bulk root to a broker network that operates mainly out of Hong Kong. The two primary markets for North American ginseng are Southern and Eastern China where the market is estimated at US$120 million.

Making the Grade

Grading marks the first stage of enhancing the value of the ginseng root. Initially, the bulk root is graded and priced at one of four quality levels. Grading for retail purposes is more complex: there are approximately 40 grades of ginseng, with 25 grades for the main body of the root and 15 for prongs and fibers. Graded main body roots are worth approximately five times the price of prongs and fibers.

Chai-Na-Ta has established a strong presence in China by acquiring its own brokerage business and an equity interest in grading and processing facilities which are operated under Chai-Na-Ta (Asia) Ltd. (CNTA) and its subsidiaries. CNTA brokers ginseng root supplied by Chai-Na-Ta Farms through its Hong Kong-based subsidiary, North American Ginseng Enterprises Ltd. (NAGEL). NAGEL provides Chai-Na-Ta with the flexibility of selling root in a variety of markets to obtain the best possible price.

Chai-Na-Ta's Wuxi Zhongjia American Ginseng Natural Tonics Ltd. (Wuxi) facility in China grades and processes bulk root, processing up to 25,000 pounds per month. From the Wuxi facility, the Company's processed root enters one of two streams: value-added products for Asian markets or value-added products for the North American market.

Manufacturing

Marketing

Products for Non-Traditional Markets

As their lifestyle changes, Asian consumers are increasingly turning to more convenient forms of ginseng such as teas, packaged slices, extracts and capsules. There are estimated to be more than 50 different brands of these products now available. At its Wuxi facility, Chai-Na-Ta manufactures value-added products which are sold under the Zhongtian and Dashan labels for Asian markets.

Even greater potential exists in North America where demand is growing for ginseng as an ingredient in nutraceutical products. To supply the North American market, bulk ginseng root is processed offshore, and imported into the United States in powder, extract, or extract powder form. Smaller volumes of graded bulk root are also shipped to the United States for processing by American companies.

Product quality is critical in the nutraceutical industry. Chai-Na-Ta ensures product integrity by controlling operations from farming through to processing. The Company's close alliances with both offshore manufacturing and extraction facilities and U.S. manufacturers of nutraceutical products, position Chai-Na-Ta to become a major player in the manufacturing segment of the nutraceutical industry.

What does value-added mean?

The value of bulk ginseng root can be enhanced by grading, processing and packaging it in a variety of forms. The product's value increases with each level of processing, ranging from packaged slices and teas to extracts, powders and specially formulated capsules.

Growing Demand for Natural Supplements

The U.S. nutraceutical industry generated more than $14 billion in revenues in 1997. Consumer interest is driving the demand for botanical-based products, fueling an annual growth rate of 20 percent which is expected to continue for a number of years.

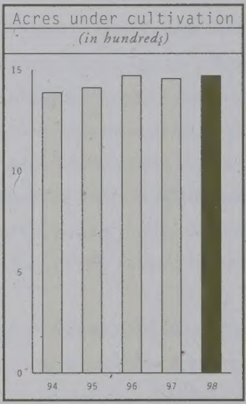
Nutraceutical Products

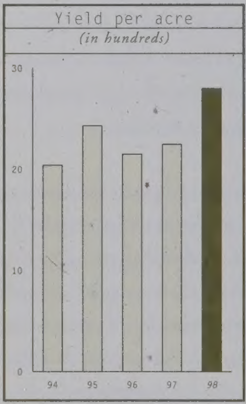
Nutraceutical is the term used to describe a broad range of dietary supplements from herbal teas to multivitamins that promote and maintain health.

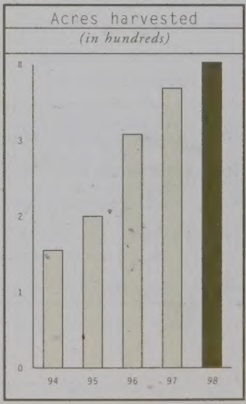
Market research estimates that two-thirds of all households in the United States use at least one vitamin, mineral or herbal supplement, and 31 percent use at least seven or more supplements per day. With this widespread acceptance, natural products are making their way into the mainstream.

Significant opportunities exist for Chai-Na-Ta, as a premium supplier of high quality, standardized North American ginseng, to participate in this growing market. Currently, Chai-Na-Ta's processed ginseng enters North America through OEMs (Original Equipment Manufacturers), packaged under private labels, and under its own Unique Formulations and Mexican brands. Over the next two years our participation in the marketing segment of the industry will be limited, as we focus on building our business as a premium supplier to nutraceutical manufacturers (OEMs).

North American Farms *Year ended November 30*		
	1998	1997
	$	$
Revenue	11,002,866	2,329,502
Net earnings (loss)	(4,154,107)	(4,751,937)
Total assets	61,719,480	66,279,08
Gross margin	(14%)	21%







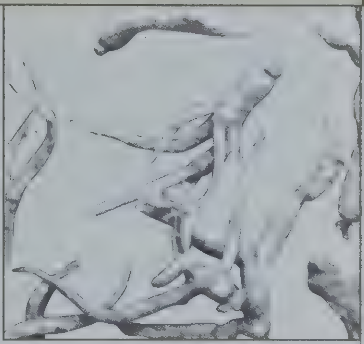
Operating Results

Chai-Na-Ta's 1998 harvest improved significantly in yield over 1997. Chai-Na-Ta and its joint venture farming partners harvested 403 acres in Ontario and British Columbia, yielding 1.13 million pounds of root. This was a world and company record harvest for North American ginseng, representing an increase of approximately 29 percent over the 829,000 pounds harvested the previous year, and accounting for approximately 20 percent of the total North American ginseng production. Yield per acre was an average of 2,799 pounds.

During the year, Chai-Na-Ta's farms in Ontario and British Columbia conducted field trials on echinacea and goldenseal which have potential for use in natural supplement products.

Outlook

In 1998, we planted 416 acres. Over the next three to five years, Chai-Na-Ta's harvest volumes are expected to remain at the 1.1 million pound level or better as we improve our yields. With world production expected to decrease during this period, the Company's total share of world production is anticipated to increase.



Maximizing Return on the Whole Root

North American ginseng, prized for its health-enhancing benefits in China and Southeast Asia, has traditionally been purchased in the form of whole root. The price of whole root is determined by its appearance and size. Clean, dark roots with tight, horizontal wrinkles are preferred, with larger roots going to the Chinese market and smaller ones currently in demand in Hong Kong and Singapore.

In traditional markets, the prongs and fibers are less highly valued than the main body of the root. However, the prongs and fibers contain a higher proportion of the ginsenocides which are the source of ginseng's therapeutic properties. As a result, they are ideal for use as raw material for processed products.

Chai-Na-Ta processes prongs and fibers to produce ginseng extracts and powders for supply to nutraceutical manufacturers, reserving the main body of the root for sale to traditional markets. This maximizes return generated on high quality whole root, valued for its appearance, as well as on the less appealing portions which provide potent source material for processed products.

Operating Results

Chai-Na-Ta sold more than 800,000 pounds of North American ginseng root through its Hong Kong brokers, North American Ginseng Enterprises Limited (NAGEL), an increase of 480,000 pounds over 1997.

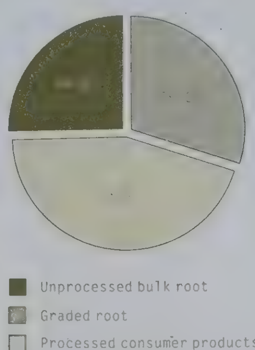
During the year, Chai-Na-Ta's Wuxi facility processed 37,000 pounds of North American ginseng. This represents an increase of 54 percent over fiscal 1997.

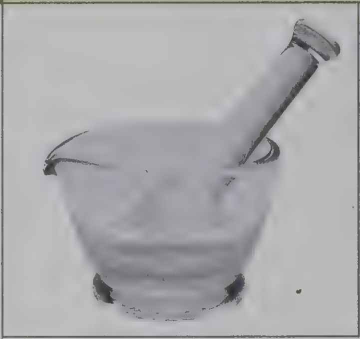
Outlook

The traditional market for graded North American ginseng in Southeast Asia is expected to remain stable over the next few years. The greatest potential for growth in Asian markets is in the area of convenient, value-added products as alternative forms of ginseng consumption become more popular.

Bulk Root vs. Graded Root Revenue

in segments





South Asia Financial Results *Year ended November 30*	1998 $	1997 $
Revenue	15,215,050	8,229,155
Net earnings (loss)	(3,301,475)	(5,246,026)
Total assets	10,774,679	14,040,092
Gross margin	11%	3%

Operating Results

In addition to grading and processing bulk root, Chai-Na-Ta's Wuxi facility manufactures value-added products for Asian markets. These include packaged graded ginseng roots and slices, teas, capsules and gift packs, branded under the Zhongtian and Dashan brands.

Productivity and volume of processed products improved in 1998, with a total of 120,000 pounds processed, an increase of 300 percent over 1997. The supply of standardized ginseng extract powder to U.S. manufacturers represented 50 percent of the volume of value-added products in 1998.

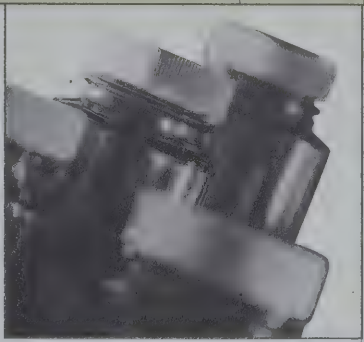
Chai-Na-Ta also has a controlling interest in the Dalian Pegasus Ginseng Pharmaceutical Company which owns valuable licenses to produce a variety of high level pharmaceutical products. A limited amount of manufacturing was conducted at the Dalian facility in 1998. Additional funding will be required to take advantage of Dalian's valuable licenses for high-end pharmaceutical products based on North American ginseng.

Outlook

In North America, product purity has become an increasingly important issue. In December of 1998, the Council for Responsible Nutrition (CRN) received a recommendation from its industry joint task force that U.S. manufacturers switch from Asian to North American ginseng as their source of raw materials for ginseng-based products. The requirement for contaminant-free raw materials is expected to increase demand for Chai-Na-Ta's pure whole root extract powder.

Advanced Extraction Technology

Chai-Na-Ta's presence in China proved to be an important competitive advantage when a new extraction technology was required to comply with the requirement for contaminant-free ginseng which was strictly enforced by the United States Food and Drug Administration (USFDA) in 1998. Through our scientific expert network in research and development and manufacturing segments of the nutraceutical industry in China, we gained the capabilities to produce and supply product to meet the U.S. requirement in the future.



Operating Results

Marketing Value-Added Products in China

Chai-Na-Ta (Asia) Ltd. (CNTA) continued to show steady progress in creating product awareness among Asian consumers and securing a share of the growing market for value-added products. Mark Rowswell, Chai-Na-Ta's well known spokesperson in China, has proven highly successful in promoting the Company's products. The Zhongtian brand of value-added products, manufactured at CNTA's Wuxi facility has approximately 9 percent of the market share in its immediate market region. In 1998, Chai-Na-Ta launched a new product line, branded under the name of Dashan, Rowswell's popular character.

Marketing Value-Added Products in North America

In North America, Chai-Na-Ta markets and distributes value-added products based on North American ginseng and other high quality herbal ingredients under its Unique Formulations label.

In fiscal 1998, marketing programs for Unique Formulations label were reduced as part of efforts to reduce operating costs across the Company. During the same period the increased efforts for the OEM market yielded growth in revenues of 100 percent. As a result, 1998 revenue for Unique Formulations were $2,774,000.

In Mexico, the Company focused on building a presence for its products in the natural supplements market. The Company's Mexican operations received recognition for their professionalism and quality with the award of the International Diamond Star for Quality from the National Marketing Institute in Mexico.

Outlook

Chai-Na-Ta's marketing programs provide a strategic platform from which to grow future programs, such as CNT2000, which can diversify our revenue base and reduce the Company's exposure to fluctuations in commodity pricing. Due to the current industry crisis, Chai-Na-Ta cannot afford to support these marketing programs and have subsequently scaled them back accordingly. We believe that there is potential demand for new products, and will continue to look at ways to expand sales and growth into new markets and customers when our financial resources allow us to.

Value-Added Product Revenue
(stated in thousands of Cdn dollars)
Year ended November 30

	1998	1997
	$	$
Unique Formulations Inc.	2,774	998
Chai-Na-Ta Mexico	796	18
Wuxi Zhongjia American Ginseng Natural Tonics Co. Ltd.	1,613	1,796
	5,183	2,812

	1998	1997	1996	1995	1994	Six months ended Nov. 30 1993	Year ended May 31 1993
	Year ended Nov. 30						
(Stated in Thousands of Canadian Dollars Except Acres and Per Share Amounts)							
Revenue	$ 17,294	$ 9,053	$ 34,430	$ 25,878	$ 19,085	$ 2,098	$ 10,469
Gross profit	1,175	851	15,989	13,374	9,719	(210)	6,223
Pretax (loss) earnings	(10,887)	(15,339)	9,163	8,123	5,917	(2,313)	4,086
Net (loss) earnings	(7,417)	(10,636)	6,104	5,023	4,156	(1,528)	3,085
Basic (loss) earnings per share	(1.84)	(2.64)	1.53	1.32	1.11	(0.42)	0.88
Stock dividends paid per share	–	2.50%	2.50%	–	1.67%	–	2.50%
Ginseng crops	$ 25,280	$ 27,145	$ 25,455	$ 24,229	$ 19,702	$ 14,630	$ 13,942
Total assets	64,610	74,234	84,965	69,926	58,197	40,857	30,337
Shareholders' equity	21,232	28,358	38,513	29,758	24,341	18,349	17,824
Return on average equity	N/A	N/A	17.9%	18.6%	19.5%	N/A	19.6%
Acres under cultivation	1,469	1,455	1,470	1,410	1,386	991	763

The following discussion and analysis provides a review of the operating results, financial position and liquidity, risks and industry trends affecting the financial results of Chai-Na-Ta Corp. for the fiscal year ended November 30, 1998. Additional comments are provided in relation to changes made to operations since the year end and the expected financial impact these may have. This commentary should be read in conjunction with the consolidated financial statements and their accompanying notes. Prices in Canadian dollars, unless specified.

OPERATING RESULTS

Total revenue for 1998 was $17,294,375, a 91% increase over 1997. The increase resulted from the sales in 1998 of root held back and not sold from the 1997 harvest. Prior to 1997 the corporation sold most of its fall harvest before the end of its fiscal year, but due to low root prices in 1997, that sales strategy was changed. This new sales strategy was also applied to the 1998 crop which was harvested in October and November. Substantially all of the 1998 root has been held back for sale in 1999. Although 1998 revenues are substantially higher than 1997, they were adversely affected by lower root prices.

Cost of goods sold was 93% of sales revenue, compared to 91% in 1997. Chai-Na-Ta Farms Ltd. achieved a record harvest in 1998, producing 1,130,790 pounds of root. This was a world record for North American ginseng producers and represents an increase of 36% over the 1997 harvest of 829,433 pounds. The Company's combined farming operations in British Columbia and Ontario harvested a total of 403 acres with an average yield of 2,799 pounds per acre. This compares to 1997's harvest of 369 acres and an average yield of 2,247 pounds per acre. The 25% improvement in yield per acre reflects favorable weather conditions in 1998 and quality farming practices.

Chai-Na-Ta's gross margin declined to 7% of sales from 9% in 1997. This was the result of declining bulk root prices. Our gross margin was favourably affected, however, by the net proceeds from the sale of approximately 50,000 pounds of root in the form of a pure extract powder to a U.S. nutraceutical manufacturer. These value added product sales have generated good margins for Unique Formulations Inc., our Portland-based subsidiary. The Company is working to supply greater quantities of this product to this customer and other nutraceutical companies in the U.S. during 1999.

Selling, general and administrative expenses totaled $5,862,734 in 1998, which were 34% of sales. This compares to costs of $7,867,554 in 1997. The 25% decrease of approximately $2.0 million reflects the efforts of management to reduce overhead expenses and other operating costs, including salary costs in 1998. This effort is continuing in 1999 with significant restructuring and cost reductions to ensure the Company can operate throughout 1999 at the current low root prices. Executive salaries have been frozen for the third year in a row.

Interest and financing charges increased by $412,798 or 33% over 1997 for a total cost of $1,650,001. This increased cost reflects the higher levels of debt taken on in recent years to fund international development and to provide working capital to fund operating deficits in the past two years. It is expected that interest costs will rise again in 1999 to reflect higher interest rates on existing debt that was refinanced in 1998 and the costs of new financing currently being sought to provide additional working capital for the Company.

The other loss of $818,592 represents costs related to the write down of our investment in our Mexican operation and the foreign exchange loss associated with that investment. The gain of $307,231 in 1997 was primarily due to a foreign exchange gain relating to this operation.

A 50% allowance has been provided for in the Statement of Earnings for a write-down of Chai-Na-Ta's investment in Dalian Pegasus Pharmaceutical Co. Ltd. in China. This allowance brings the carrying value of this investment to $3,372,413, which management estimates to be the fair value of assets, including pharmaceutical licenses, for this facility. The difference in the value of the investment has been expensed.

Management considers that the licences and facilities will be attractive to foreign businesses interested in supplying the Chinese pharmaceutical market and as a result are actively pursuing third parties. Without additional working capital and the refinancing of the current debts and obligations further provisions may be required.

A provision for closure costs has been made in 1998 to account for our recent decision to close our Mexican operations and to consolidate operations in Chai-Na-Ta (Asia) Ltd. The costs to wind up the Mexican operation are estimated to be $400,000 and will include staff severance, legal and accounting costs, and contract settlements with major suppliers. Chai-Na-Ta (Asia) Ltd. operations will be scaled back, with their primary focus on supporting bulk root sales and the U.S. pure extract powder program. The restructuring costs for Chai-Na-Ta (Asia) are expected to be $150,000.

The net loss for the year was $7,416,970, compared to a net loss in 1997 of $10,636,184. Both basic and fully diluted loss per share was $1.84 compared to $2.64 in 1997. No new shares or warrants were issued in 1998.

FINANCIAL POSITION AND LIQUIDITY

The total cash deficit from operations was $3,742,382 compared to a deficit of $5,607,284 in 1997 and $2,804,648 in 1996. The Company's net cash position at November 30,1998 was $(3,531,090), compared to $2,427,367 in 1997, a decrease of $5,958,457. In 1999, the Company is focussing on reducing overhead costs even further in order to address these deficits and is exploring other sources of financing.

The working capital position of the Company as at November 30, 1998 was $21,078,413, compared to $19,357,175 in 1997. The improvement came about because the current portion of long term debt decreased from $8,742,562 to $860,596. Certain debt repayments were rescheduled during the year resulting in a reduction of the long term debt to be paid in 1999. Chai-Na-Ta (Asia) was successful in refinancing its $4,589,670 USD loan with the HSBC China Fund in Hong Kong, which came due on October 16,1998, for an additional three years. The interest rate increased to 8% from 3%, and 96,000 warrants will be provided to HSBC if the loan is outstanding for the full three years (number of warrants reduced if repaid early). During 1998 the Company was also successful in renewing its $5.0 million operating line with the Hongkong Bank of Canada, now at prime plus one percent. We also renegotiated our loan with the John Hancock Mutual Life Insurance Co. in Boston. Instead of having to make equal debt payments of one third of the total debt on June 30 starting in 1999 and for each of the next two years after that, the entire $20,000,000 loan is now due on June 18, 2001. The interest rate on the loan increased from 10.6% to 18%, but Chai-Na-Ta can elect to pay a minimum of 10.6% in cash and the rest in shares (or the difference can be capitalized and added to the loan principal at the lender's option). Hancock has again agreed to subordinate their security position to the Hongkong Bank until December 31, 1999 and to waive certain financial and operating covenants until November 30, 1999. A $1,060,000 interest payment due to Hancock on June 30, 1998 was deferred and accrued to June 30, 1999. There was no new financing raised in 1998.

No new shares were issued in 1998 and no new equity financing is planned for 1999 at this time. The Company plans to maintain its listing on the Toronto Stock Exchange and Nasdaq, although notice has been received from Nasdaq that the Company has not met the Exchange's requirements of maintaining a market capitalization of $5,000,000 USD and a minimum bid price of $1.00 USD. We are currently addressing this issue with Nasdaq.

Purchase of capital assets of $338,589 in 1998 was primarily by Chai-Na-Ta Farms Ltd. and represented purchases of equipment for farm operations. Capital purchases in the other subsidiary companies were minimal.

Total capital purchases in 1997 were $1,670,198. Much of the equipment, posts, shade cloth, etc. required to maintain our farming operations and plant approximately 400 new acres per year have been incurred in previous

years and thus capital expenditures going forward are expected to be minimal and for replacement purposes only.

RISKS AND UNCERTAINTIES

Chai-Na-Ta is subject to a number of business and financial risks including: agricultural risk such as weather and disease, commodity price risk for ginseng bulk root, exchange risk (predominantly U.S. dollar related, as that is the currency in which root is sold), political risk (particularly in China), interest rate risk, credit risk, future need for financing, and the Year 2000 information technology risk.

The largest impact on future earnings and cash flow will come from changes in root prices. Every $1 CDN increase in root price is expected to add $1,000,000 earnings to our operating results. However, if root prices remain at their current level for fiscal 1999, management would expect North American ginseng supply to decline by 10 to 15% per year for the next four years, which should result in a recovery of root prices. The Company's ability to supply up to 40% of our total harvest to our pure extract powder program would also decrease the bulk root available to traditional Asian markets, putting increased pressure on root prices.

If the currency in China is revalued as it was five years ago, Chai-Na-Ta could suffer an exchange loss on assets held there. The Company's total investment in Dalian is approximately $3.4 million, however our interest will be reduced as creditors convert debt into equity and as new financing is raised from outside investors. The total money invested in the Wuxi operation is approximately $3.0 million. Political risk in China is being reduced by our plans to reduce our investment in our Wuxi and Dalian operations during 1999 and future years.

It is the nature of the industry that a few bulk root buyers in Hong Kong buy the majority of our root. Insurance coverage has been arranged with the Canadian Export Development Corporation (EDC) to provide insurance on those receivables that are with approved customers. The EDC has guaranteed 90% of any approved receivable from those customers. This risk will be reduced over time as our U.S. pure extract powder program is ramped up. Our major customer in the U.S. is a large and well financed manufacturer in California.

Our efforts to address Y2K risk are progressing and are expected to be complete by the end of 1999. Chai-Na-Ta considers itself to have limited risk in this area because our farming operations are not computerized. We are working with our suppliers to ensure that the impact on the Company, if any, is minimal.

One of the largest risks facing Chai-Na-Ta is that relating to obtaining new operating capital. The Company is optimistic it can obtain new financing but this cannot be assured. In the event new funding cannot be found, our operating line may not be renewed and efforts to restructure the Company may not be sufficient or timely enough to allow operations to continue within existing and expected future cash resources.

Finally, as a cautionary note, some of the statements made in this section and in this annual report are forward-looking statements, such as estimates and statements that describe the Corporation's future plans, objectives or goals, including words to the effect that the Corporation or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements by reason of factors such as the expected future increase in root prices or the ability to raise additional financing. The Corporation has been optimistic about its ability to implement cost reduction measures and some restructuring, the timing and effectiveness of which could have a material impact on working capital availability to support operations through 1999.

To the Shareholders of Chai-Na-Ta Corp.

We have audited the consolidated balance sheets of Chai-Na-Ta Corp. as at November 30, 1998 and 1997 and the consolidated statements of (loss) earnings, retained earnings, changes in financial position and crop costs for each of the years in the three year period ended November 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 1998 and 1997 and the results of its operations and the changes in its financial position and crop costs for each of the years in the three year period ended November 30, 1998 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
March 4, 1999

Comments by Auditors for U.S. Readers on Canada - United States Reporting Differences

In the United States, reporting standards for auditors would require the addition of an explanatory paragraph following the opinion paragraph when the financial statements are affected by a significant uncertainty such as referred to in Note 2 regarding the Company's ability to continue as a going concern. Our report to the shareholders dated March 4, 1999 is expressed in accordance with Canadian reporting standards which do not permit a reference to such uncertainties in the auditors' report when the uncertainties are adequately disclosed in the financial statements.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
March 4, 1999

The management of Chai-Na-Ta Corp. is responsible for the preparation and integrity of the financial statements of the Company. The financial statements have been prepared in accordance with generally accepted accounting principles using management's estimates and judgements when necessary. The financial information contained elsewhere in this annual report is consistent with that in the income statement, balance sheet and statements of changes in financial position and crop costs.

Chai-Na-Ta Corp. maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that financial records are adequate and can be relied upon to produce financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance is based on the recognition that the cost of maintaining our system of internal accounting controls should not exceed the benefits to be derived from the system. The system is supported by written policies and guidelines, and is continuously reviewed.

Deloitte & Touche, independent auditors, are retained to audit Chai-Na-Ta Corp.'s financial statements. Their audit is conducted in accordance with generally accepted auditing standards and provides an independent assessment that helps assure fair representation of the Company's financial statements. Their opinion on the financial statements is published separately in this annual report.

The Board of Directors, through its Audit Committee, exercises an oversight role in the Company's financial affairs and statements. The Committee meets with management and the independent auditors as required. These meetings include discussions of internal accounting control and the quality of management and financial reporting. Both the Finance and Administration department of the company and the independent auditors have full and free access to the Audit Committee.

GAGill

Gerry A. Gill,
President & CEO

	As at November 30 1998	1997
(Stated in Canadian Dollars)		
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,068,993	$ 3,435,077
Accounts receivable	2,952,800	3,642,073
Inventory	16,549,615	16,211,219
Ginseng crops *(Note 5)*	10,318,142	11,277,297
Prepaid and other assets	596,080	615,555
	31,485,630	35,181,221
Investment in Dalian Pegasus Ginseng Pharmaceutical Co., Ltd. *(Note 4)*	3,372,413	6,337,184
Ginseng crops *(Note 5)*	14,961,861	15,867,255
Capital assets *(Note 6)*	12,418,169	14,199,112
Other assets *(Note 7)*	2,372,025	2,649,705
	$ 64,610,098	$ 74,234,477
LIABILITIES		
Current liabilities		
Line of credit *(Note 8)*	$ 4,600,083	$ 1,007,710
Short-term borrowing *(Note 9)*	300,760	296,595
Accounts payable and accrued liabilities	4,645,778	5,777,179
Current portion of term debt *(Note 10)*	860,596	8,742,562
	10,407,217	15,824,046
Term debt *(Note 10)*	28,241,951	21,642,038
Deferred gain *(Note 11)*	665,000	614,600
Capital due to co-venturer *(Note 11)*	937,500	1,125,000
Deferred income taxes *(Note 15)*	3,126,781	6,596,781
Non-controlling interests	-	74,008
	43,378,449	45,876,473
SHAREHOLDERS' EQUITY		
Share capital *(Notes 12 and 13)*	17,221,262	17,221,262
Equity component of convertible debt and warrants *(Note 10(a) and (b))*	1,062,069	1,416,092
Cumulative translation adjustments	483,074	192,459
Retained earnings	2,465,244	9,528,191
	21,231,649	28,358,004
	$ 64,610,098	$ 74,234,477

Going Concern *(Note 2)*

Commitments *(Note 16)*

APPROVED BY THE BOARD

Director *G Gill* Director *Michael Harcourt*

		Years ended November 30	
	1998	1997	1996
(Stated in Canadian Dollars)			
Revenue	$ 17,294,375	$ 9,052,647	$ 34,429,647
Costs of goods sold	16,119,501	8,201,600	18,440,782
	1,174,874	851,047	15,988,865
Selling, general and administrative expenses *(Note 1)*	5,862,734	7,867,554	5,787,157
Bad debts	432,112	586,434	212,769
Interest and financing charges	1,650,001	1,237,203	745,501
	7,944,847	9,691,191	6,745,427
	(6,769,973)	(8,840,144)	9,243,438
Loss on sales contracts *(Note 14)*	–	(7,325,925)	–
Operating (loss) income	(6,769,973)	(16,166,069)	9,243,438
Provision on impairment of investment *(Note 4(a))*	(3,372,413)	–	–
Other (expense) income	(818,592)	307,231	109,201
Non-controlling interests	74,008	519,654	(189,312)
(Loss) earnings before income taxes	(10,886,970)	(15,339,184)	9,163,327
Provision for income taxes (recovery) *(Note 15)*	(3,470,000)	(4,703,000)	3,059,748
NET (LOSS) EARNINGS	$ (7,416,970)	$ (10,636,184)	$ 6,103,579
Basic (loss) earnings per share	$ (1.84)	$ (2.64)	$ 1.53
Fully diluted (loss) earnings per share	$ (1.84)	$ (2.64)	$ 1.26
Weighted average number of shares used to calculate basic (loss) earnings per share	4,021,553	4,021,553	3,982,677

		Years ended November 30	
	1998	1997	1996
(Stated in Canadian Dollars)			
Balance, beginning of year	$ 9,528,191	$ 20,164,375	$ 14,060,796
Amortization of equity component of convertible debt and warrants *(Note 10(a) and (b))*	354,023	–	–
Net earnings (loss)	(7,416,970)	(10,636,184)	6,103,579
Balance, end of year	$ 2,465,244	$ 9,528,191	$ 20,164,375

	1998	1997	1996
(Stated in Canadian Dollars)			
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:			
OPERATING ACTIVITIES:			
Cash provided from (used in) operations *(Note 18(a))*	$ 8,760,509	$ (2,347,953)	$ 20,304,108
Changes in non-cash operating working capital items *(Note 18(b))*	(5,688,450)	3,965,516	(17,262,708)
Change in non-current crop costs	(6,814,441)	(7,224,847)	(5,846,048)
	(3,742,382)	(5,607,284)	(2,804,648)
FINANCE ACTIVITIES:			
Issuance of share capital	–	98	2,157,907
Increase in deferred financing costs	–	–	(1,517,258)
Issuance of term debt, net	(1,282,053)	1,550,597	16,320,418
Deferred gain	50,400	33,325	321,275
Joint venture capital returned to co-venturer	(187,500)	(187,500)	(375,000)
Issuance of warrants	–	–	825,000
	(1,419,153)	1,396,520	17,732,342
INVESTING ACTIVITIES:			
Investments	(407,642)	(289,608)	(166,183)
Purchase of capital assets, net	(338,589)	(1,670,198)	(1,755,889)
Increase of other assets	(341,306)	(375,908)	(493,232)
Deferred translation gain (loss)	290,615	481,063	(268,238)
	(796,922)	(1,854,651)	(2,683,542)
NET CASH INFLOW (OUTFLOW)	(5,958,457)	(6,065,415)	12,244,152
CASH AND CASH EQUIVALENTS POSITION, BEGINNING OF YEAR	2,427,367	8,492,782	(3,751,370)
CASH AND CASH EQUIVALENTS POSITION, END OF YEAR	$ (3,531,090)	$ 2,427,367	$ 8,492,782
Represented by:			
Cash and cash equivalents	$ 1,068,993	$ 3,435,077	$ 8,492,782
Line of credit	(4,600,083)	(1,007,710)	–
	$ (3,531,090)	$ 2,427,367	$ 8,492,782

Years ended November 30 (column heading above 1998, 1997, 1996)

	1998	1997	1996
		Years ended November 30	
(Stated in Canadian Dollars)			
Depreciation	$ 1,913,045	$ 1,818,642	$ 1,654,405
Farm equipment operating costs	542,627	610,297	747,381
Interest and financing charges	2,183,637	2,350,916	1,392,237
Land rental	810,557	761,968	691,328
Mulch and fertilizer	2,222,112	2,284,569	1,814,512
Other	246,420	305,366	146,914
Plant science	25,985	36,703	37,826
Salaries and wages	4,217,964	5,084,506	4,304,192
Seed	1,178,680	870,854	600,937
Small tools and supplies	70,292	94,787	93,709
Warehouse and dryer operations	247,733	199,043	154,422
	13,659,052	14,417,651	11,637,863
Balance, beginning of year	27,144,552	25,454,843	24,229,256
	40,803,604	39,872,494	35,867,119
Less:			
Cost of crop and seed harvested during period	15,523,601	12,727,942	10,412,276
Balance, end of year	25,280,003	27,144,552	25,454,843
Less: current portion	10,318,142	11,277,297	7,861,831
	$ 14,961,861	$ 15,867,255	$ 17,593,012

(Stated in Canadian Dollars)

For the years ended November 30, 1998, 1997 and 1996

1. NATURE OF OPERATIONS AND SIGNIFICANT ITEMS

As a result of changes in market conditions, management revised its sales strategy in fiscal 1997 from selling a substantial portion of the fall harvest in the fourth quarter following the harvest, to a strategy of selling the harvest more uniformly over the following twelve months.

This transition had a significant impact on fiscal 1997 sales volume and revenue, since the 1997 harvest was carried forward for sale in 1998.

As a result of the Company's continuing vertical integration strategy, selling, general and administrative expenses reflect costs to establish operations in new markets. The following summarizes these expenses by geographic region:

	1998	1997	1996
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
North America	$ 3,250,581	$ 3,879,284	$ 3,859,019
Mexico	966,798	1,559,258	191,566
Asia	1,645,355	2,429,012	1,736,572
	$ 5,862,734	$ 7,867,554	$ 5,787,157

2. GOING CONCERN

While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, several adverse conditions and events cast substantial doubt upon the validity of this assumption.

The Company has incurred significant operating losses over the past two fiscal years ($7,416,970 in the current year) and has a working capital deficiency of $5,789,344 excluding inventory and current Ginseng crops. In addition, the Company is in breach of financial covenants relating to its term debt and has negotiated a rescheduling of certain debt principal repayments. The Company has obtained waivers of existing financial covenants and has renegotiated debt terms.

The Company has pursued various options with its lenders for changes in the terms of its credit facilities. There can be no assurance that such agreements will be extended in the future, nor that additional financing efforts will be successful. The Company's continued existence is dependent upon its ability to restructure its financing arrangements and to restore and maintain profitable operations.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported net loss and the balance sheet classifications used and these adjustments may be substantial.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada, which differ in some respects from those in the United States (see Note 21), and reflect the following significant accounting policies:

(Stated in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES cont'd

(a) Description of business

The Company operates North American ginseng farms in Canada, on which ginseng root is planted, cultivated and harvested. Through its subsidiaries, the Company operates ginseng processing and marketing facilities in Hong Kong, China, the Caribbean, Mexico and the United States.

(b) Basis of presentation

These consolidated financial statements include the accounts of the Company and those of its subsidiaries and joint ventures. All significant intercompany transactions and balances have been eliminated.

At November 30, 1998, the Company's effective ownership interests in these companies were as follows:

SUBSIDIARIES	
Chai-Na-Ta Farms Ltd.	100%
Chai-Na-Ta International Ltd.	100%
Chai-Na-Ta (Asia) Ltd.	90.4%
North American Ginseng Enterprises Limited	90.4%
Unique Formulations, Inc.	90%
JOINT VENTURES AND PARTNERSHIPS (consolidated on a proportionate basis)	
Wuxi Zhongjia American Ginseng Natural Tonics Co. Ltd.	46.1%
Skeetchestn / Chai-Na-Ta Xexe7ellp (Potent) Ginseng Joint Venture ("SKJV")	50%
President / Chai-Na-Ta Farms Partnership	30%

(c) Revenue recognition

Revenue is recognized when title has been transferred or ginseng products have been delivered to customers.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits in banks and highly liquid investments with an original maturity of three months or less.

(e) Inventory

Inventory is valued at the lower of cost and net realizable value.

(f) Investments

The Company accounts for those investments in which it has no significant influence using the cost method. For those investments in which the Company has significant influence the equity method is used, whereby the Company's share of net earnings is included in earnings for the year and the Company's investment therein is adjusted accordingly. Provisions are made for any impairments in value which are determined to be other than temporary.

(g) Ginseng crops

The Company uses the full absorption costing method to value its ginseng crops. Included in crop costs are seed, labour, applicable overhead, interest and supplies. Costs are allocated each year based on the total number of acres under cultivation during the year.

Those crop costs relating to the acreage harvested and sold have been charged to cost of sales.

3. SIGNIFICANT ACCOUNTING POLICIES cont'd

(h) Capital assets and depreciation

Capital assets are depreciated on a straight-line basis over the following periods:

Buildings	20 years
Computer equipment and software	4 years
Furniture and fixtures	10 years
Leasehold improvements	10 years
Machinery and equipment	10 years
Sunshade	10 years
Vehicles	8 to 10 years

The carrying value of capital assets is reviewed on a regular basis for any permanent impairment in value. To date, no such impairment has been indicated.

(i) Deferred financing costs

Deferred financing costs are amortized on a straight-line basis over the term of the related debt and are included in interest and financing charges for the year.

(j) Deferred development costs

Pre-operating branch start-up costs are amortized on a straight line basis over a five year period from the date the branch commences operations. Provisions are made for any impairments in value which are determined to be other than temporary.

(k) Goodwill

Goodwill arising on acquisition is amortized on a straight-line basis over a ten year period. Provisions are made for any impairments in value which are determined to be other than temporary.

(l) Foreign currency translation

Financial statements of the Company's self-sustaining foreign operations are translated into Canadian dollars using the current rate method. Adjustments arising from this translation are deferred and recorded as Cumulative Translation Adjustments under the Shareholders' Equity section of the balance sheet and are included in income only to the extent of any reduction in the investment in these foreign operations is realized.

(m) Financial instruments

Financial instruments of the Company are represented by cash and cash equivalents, accounts receivable, short-term borrowings, accounts payable and accrued liabilities and capital lease obligations. The carrying value of these instruments approximate fair value due to their immediate or short-term to liquidity.

The Company estimates the fair value of financial instruments comprising its interest-bearing debentures and convertible loans at the higher of their respective liquidation values or converted values based upon the quoted market price of the Company's common shares. The Company estimates the fair value of its non-interest bearing term debt using discounted cash flows assuming a borrowing rate equal to the Bank of Canada rate plus 2%.

(Stated in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES cont'd

(n) Use of estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(o) (Loss) earnings per share

(Loss) earnings per share are calculated using the weighted average number of shares outstanding during the year. Fully diluted (loss) earnings per share are calculated based on basic (loss) earnings per share adjusted for the effect of the potential exercising of warrants, convertible debt and options.

4. INVESTMENTS

(a) Dalian Pegasus Ginseng Pharmaceutical Co., Ltd.

The Company's investment in Dalian Pegasus Ginseng Pharmaceutical Co., Ltd. ("Dalian") is accounted for using the cost method. Dalian is a pharmaceutical manufacturing company based in Dalian, China. During 1996, the Company agreed to divest a portion of its investment in Dalian, reducing its interest from 77.3% to approximately 25% ownership. During 1998, the Company made a provision of $3,372,413 in respect of the impairment in value which, based on management's best estimates, is determined to be other than temporary. Dalian was awarded a pharmaceutical license before the Chinese government placed a moratorium on the issuing of similar new licenses: Management considers that the license and facilities will be attractive to foreign businesses interested in supplying the Chinese pharmaceutical market and as a result is actively pursuing third parties. At the present time, however, no agreement or contract has been signed with these parties. Changes in future conditions could require additional adjustments to the carrying value of the investment.

(b) Unique Formulations, Inc.

During 1996, the Company increased its ownership from 50% to 90% interest in Unique Formulations, Inc. in exchange for an additional $339,000 by way of debt conversion.

The acquisition has been accounted for using the purchase method and the excess purchase price over the net book value of tangible assets acquired has been allocated to goodwill. The Company has consolidated operations since the 1996 acquisition date.

Net estimated fair value of assets acquired at acquisition date:	
Current assets	$ 666,437
Capital assets	28,792
Goodwill	384,369
	1,079,598
Current liabilities	672,568
Other liabilities	68,030
	740,598
	$ 339,000

(Stated in Canadian Dollars)

4. INVESTMENTS cont'd

(b) Unique Formulations, Inc. cont'd

Goodwill is being amortized on a straight-line basis over ten years of which $103,418 has been amortized to date (1997 - $63,282).

Subsequent to the year end, the Company reached an agreement with the minority shareholders to acquire the remaining 10% interest in Unique Formulations, Inc. for cash consideration of $5,000 USD.

5. GINSENG CROPS

Ginseng plants reach maturity and can be harvested at the end of their third year of growth. However, the Company may allow crops to mature longer to allow for higher yields and additional seed harvests. Costs accumulated relating to the expected harvest in the next year have been classified as current assets. At present, total acreage under cultivation and management is 1,469 acres. A breakdown of those acres by year planted is as follows:

Year Planted	Number of acres
1993	44
1994	140
1995	147
1996	368
1997	354
1998	416
	1,469

6. CAPITAL ASSETS

	1998		1997	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 598,515	$ -	$ 598,515	$ –
Buildings	2,649,102	628,649	2,649,024	506,868
Computer equipment and software	478,935	335,706	447,507	260,779
Furniture and fixtures	423,245	241,712	430,557	199,541
Leasehold improvements	605,029	314,494	593,195	244,031
Machinery and equipment	5,588,387	2,766,173	5,444,597	2,262,725
Sunshade	13,370,252	7,183,071	13,551,451	6,233,420
Vehicles	502,872	328,363	481,638	290,008
	$ 24,216,337	$ 11,798,168	$ 24,196,484	$ 9,997,372
Cost less accumulated depreciation	$ 12,418,169		$ 14,199,112	

(Stated in Canadian Dollars)

7. OTHER ASSETS

	1998	1997
Land purchase option	$ -	$ 26,235
Deferred financing costs, net of amortization	841,992	1,205,957
Deferred development costs, net of amortization	-	445,282
Due from joint venture	1,202,616	586,305
Advances	46,466	64,839
Goodwill	280,951	321,087
	$ 2,372,025	$ 2,649,705

8. LINE OF CREDIT

During 1998, the Company had available a $5,000,000 line of credit that bore interest at prime plus 3/4% with a Canadian chartered bank secured by a first charge over certain assets of the Company. Borrowings of $4,600,083 against this line of credit were outstanding at November 30, 1998 (1997 - $1,007,710). On December 15, 1998 the Company renewed this line of credit bearing interest at prime plus 1%, repayable on or before November 15, 1999, subject to quarterly reviews.

9. SHORT-TERM BORROWING

The loan from a Chinese bank bears interest at the US currency floating prime rate of the Chinese government. The loan is renewed annually and is secured by China National Pharmaceutical Foreign Trade Corp., a co-venturer in Wuxi Zhongjia American Ginseng Natural Tonics Co. Ltd. At November 30, 1998, $197,388 USD remains outstanding (1997 - $208,444 USD).

10. TERM DEBT

		1998	1997
Convertible	(a)	$ 6,993,268	$ 6,421,525
Debentures and notes payable	(b)	21,774,738	23,475,260
Land purchase loan	(c)	-	118,500
Capital leases	(d)	334,541	369,315
		29,102,547	30,384,600
Less: current portion		860,596	8,742,562
		$ 28,241,951	$ 21,642,038

(a) Convertible loan

During 1993, Chai-Na-Ta (Asia) Ltd, (CNTA) obtained a $6,089,670 USD unsecured loan. The loan bears interest at the higher of 3% or CNTA's dividend yield (1997 and 1996 - 3%). The loan was repayable on October 16, 1998 unless the loan had been converted as follows:

(i) Into shares of CNTA. The percentage of shares to be issued expressed as a percentage of the shares outstanding after giving effect to the conversion will be calculated by dividing the loan amount by the sum of the loan amount and the conversion value of CNTA. The conversion value of CNTA is calculated by multiplying the consolidated after tax earnings of CNTA for the year ended November 30, 1994 by a price earnings multiple of at least 4.5. As per the loan agreement, this price earnings multiple will be adjusted in the event that CNTA is called for trading on a recognized stock exchange.

10. TERM DEBT cont'd

(a) Convertible loan cont'd

(ii) Alternatively, the lender may convert the loan into shares of North American Ginseng Enterprises Limited (NAGEL). The percentage of shares to be issued expressed as a percentage of the total number of shares of NAGEL which will be issued and outstanding after giving effect to the conversion, shall be equal to the percentage that would be obtained if the loan was converted into shares of CNTA.

(iii) Alternatively, the lender may convert the loan into shares of the Company. The effective price at which the loan may be converted shall be the current public offering price less a 5% discount. The amount to be converted shall be the greater of the loan amount and the amount calculated by multiplying the percentage of shares that would be issued if converted into CNTA by the conversion value using a price earnings multiple of 7.

In no event shall the lender receive less than 15%, or more than 35% of the common shares of CNTA or NAGEL outstanding after conversion. If as a result of any such conversion the lender would be entitled to more than 35% of the outstanding common shares of CNTA or NAGEL following conversion, the lender shall be entitled to convert the otherwise unconvertible portion of the loan into shares of the Company under the terms as described above.

During 1996, the lender converted $1,500,000 USD of this loan into 159,525 shares of the Company at a price of $9.40 USD per share. The balance outstanding at November 30, 1997 was $4,589,670 USD.

The Company incurred financing costs of $404,774 on issuance of this convertible loan which have been fully amortized (1997 - $379,634). In addition, the lender had been issued "C" share purchase warrants (Note 13(b)). Consideration of $544,752 USD, net of allocated issue costs has been recorded as Equity Component of Convertible Debt and Warrants in Shareholders Equity and represents a discount on the loan. The discount is being amortized over the period to maturity. During the year ended November 30, 1998, these warrants expired.

On November 3, 1998, the lender amended the loan agreement and extended the maturity date to October 16, 2001. The balance outstanding at November 30, 1998 is $4,589,670 USD and the amended loan bears interest at 8% per annum. Interest of $29,424 USD has been accrued on the unpaid interest at 8% for the period September 17, 1998 to October 15, 1998 payable on April 16, 1999.

Principal repayments in the amount of $250,000 USD to $500,000 USD are due to occur on February 28 and August 31 for the years 1999 to 2000 and February 28 and July 31, 2001 with the final payment due on October 16, 2001.

In connection with the amended loan agreement, the Company issued 96,000 warrants which expire on October 16, 2001 (Note 13(b)).

10. TERM DEBT cont'd

(b) Debentures and notes payable

(i) During 1995, through a private placement, the Company issued two $500,000 USD 1995 "Series A" convertible debentures that mature on June 12, 2000. The debentures bear interest at 8.5% and interest is paid semi-annually in arrears on June 30 and December 31; the first payment was made on December 31, 1995.

Each "Series A" debenture is convertible into common shares of the Company at the option of the holder at any time during the first two years after issue at a conversion price of $9.12 USD; there after, until 120 days prior to maturity, the conversion price is $10.64 USD. The Company may require the holders to convert the "Series A" debentures into common shares after two years at a conversion price of $10.64 USD if the common shares are trading at a price exceeding $13.84 USD. In addition, the Company issued "E" share purchase warrants to the private placement agent, which expired in fiscal 1996.

The Company incurred financing costs of $144,999 on issuance of these convertible debentures of which $101,493 has been amortized to date (1997 - $72,494).

(ii) During 1995, the Company issued a $2 million secured convertible debenture bearing interest at prime plus 3%. As a result of issuing the senior secured notes, the November 30, 1997 and 1996 balance of cash and cash equivalents include $2.15 million required to be kept as a reserve to retire the debt on maturity.

The debenture was convertible into common shares of the Company at the option of the holder any time after March 31, 1996 at a conversion price of $12.84. If held to maturity, the holder was entitled to a 5% cash bonus on the outstanding balance at the date of maturity. On December 31, 1997 the debenture was repaid in full along with the 5% cash bonus for a total of $2,100,000.

The Company incurred financing costs of $146,668 on issuance of this debenture which have been fully amortized (1997 - $141,038).

(iii) Upon the acquisition of the controlling interest of Unique Formulations, Inc., the Company, assumed a $50,000 USD unsecured, non-interest bearing note payable. Repayment of this note is not expected to occur within the next fiscal year (Note 4(b)).

(iv) During 1996, the Company issued $20 million in senior secured notes that mature in equal amounts on June 30, 1999, June 30, 2000, and June 18, 2001. The notes are secured by a charge over certain assets of the Company. These notes bear interest at 10.6% and interest is paid semi-annually in arrears on June 30 and December 31; the first payment was made on June 30, 1996.

In addition, the Company issued transferable "F" series share purchase warrants entitling the holders to purchase 275,000 common shares of the Company at a price of $12.80 until June 18, 2001 (Note 13(b)). Consideration of $825,000, net of allocated issue costs, has been recorded as Equity Component of Convertible Debt and Warrants in Shareholders Equity and represents a discount on the notes. The discount is being amortized rateably over the period to maturity.

(Stated in Canadian Dollars)

10. TERM DEBT cont'd

(b) Debentures and notes payable cont'd

As a result of the current year's loss the Company is not in compliance with certain financial tests. The lender has provided a waiver of compliance for the ensuing year.

The Company incurred financing costs of $1,539,030 on issuance of these notes of which $835,610 has been amortized to date (1997 - $617,595).

On November 17, 1998, the Company reached an agreement with the lender amending the secured notes. Effective November 17, 1998, interest shall accrue on the unpaid principal balance at 18%. The entire unpaid principal balance is repayable on June 18, 2001. The lender has agreed to defer the June 30, 1998 interest payment until June 30, 1999. Interest on this unpaid interest will accrue at 12.6%.

In addition, the 281,862 transferable "F" series share purchase warrants exercisable at $12.80 were replaced by 281,862 "F4 and F5" series share purchase warrants exercisable at $3.50 until June 18, 2001 (Note 13(b)).

The senior secured note holders have signed a subordination agreement to the Line of Credit holder (Note 8) which is in effect until December 31, 1999.

The lender has the option, prior to December 31, 2001, to purchase from the Company common shares of the Company equal to the aggregate of all interest that has accrued on the notes during the period from November 17, 1998 to June 18, 2001 for which payment has been deferred to June 18, 2001 divided by the weighted average closing price of the common shares trading on the Toronto Stock Exchange for the 30 trading days immediately proceeding the date of purchase for an amount equal to the accrued interest payable outstanding on the date the option is exercised.

(v) During 1997, the Skeetchestn/Chai-Na-Ta Xexe7ellp (Potent) Ginseng Joint Venture issued a $491,195 unsecured note payable that matures on August 1, 2000. The note bears interest at 10% and interest is paid monthly. As at November 30, 1998, $474,853 is outstanding on the note.

(c) Land purchase loan

During 1993, the Company entered into an agreement to purchase 220 acres of agricultural land for $590,000. This amount was payable over five years with annual principal and interest repayments until May 1, 1998.

The loan bore interest at 10% calculated on the loan balance outstanding on the anniversary date of December 7th of each year. As at November 30, 1998, the loan has been repaid in full.

(d) Capital leases

The Company has entered into capital leases which expire in 2001 and 2003. The capital leases bear interest at an approximate rate of 7.5%. The leased capital assets have been recorded as machinery and equipment and are amortized on a straight-line basis over 10 years.

	1998	1997
Cost	$ 488,560	$ 456,828
Accumulated amortization	$ 77,256	$ 27,827

(Stated in Canadian Dollars)

(d) Capital leases cont'd

Principal and interest payments are due as follows:

1999	$ 100,736
2000	95,281
2001	89,251
2002	83,008
2003	12,461
Total minimum lease payments	380,737
Less: amounts representing interest	(46,196)
Present value of net minimum lease payments	334,541
Less: current portion	(81,160)
	$ 253,381

11. JOINT VENTURES.

During 1995, the Company entered into two joint ventures that operate North American Ginseng farms in British Columbia, Canada. Through these joint ventures the Company plant, cultivate and harvest ginseng root.

The Company's proportionate interest in capital contributed by the co-venturer in the Skeetchestn/Chai-Na-Ta. Xexe7ellp (Potent) Ginseng Joint Venture is shown as a Deferred Gain on the balance sheet. This amount will be realized in income as cash distributions are made from the project.

The Company's proportionate interest in capital contributed by the other partner in the President/Chai-Na-Ta Farms Partnership is shown as Capital Due to Co-Venturer. This amount will be reduced as capital distributions are made.

The Company conducts a significant portion of its grading and distribution activities through its joint venture Wuxi Zhongjia American Ginseng Natural Tonics Co. Ltd. in China.

The following is a summary of the Company's proportionate share of the financial statements of these joint ventures:

	1998	1997	1996
BALANCE SHEET			
Current assets	$ 2,328,332	$ 2,126,028	$ 1,887,815
Long-term assets	2,136,061	2,387,448	1,651,815
Current liabilities	909,248	2,060,537	1,315,920
Long-term liabilities	2,267,052	2,289,592	1,930,971
STATEMENT OF EARNINGS			
Revenue	$ 979,899	$ 885,341	$ 975,802
Expenses	1,095,426	1,050,985	2,141,385
Net earnings (loss)	(115,527)	(165,644)	(1,165,583)
STATEMENT OF CHANGES IN FINANCIAL POSITION			
Operating activities	$ (1,111,057)	$ (484,854)	$ (1,821,785)
Financing activities	(137,100)	(154,175)	1,893,775
Investing activities	180,482	271,431	(200,033)

(Stated in Canadian Dollars)

12. SHARE CAPITAL

Authorized share capital consists of an unlimited number of common shares without nominal or par value.

On October 24, 1996, the Company consolidated its share capital at a rate of four shares for one new share. All reference to the number of shares and per share amounts presented in these consolidated financial statements give retroactive effect to the share consolidation.

During the periods, the following changes occurred in outstanding common shares:

	Number of Shares	Amount
Balance at November 30, 1995	3,647,211	$ 15,063,257
Shares issued as a stock dividend	103,280	381
Shares issued upon exercise of options	13,630	96,275
Shares issued upon conversion of debt	159,525	2,061,251
Balance at November 30, 1996	3,923,646	17,221,164
Shares issued as a stock dividend	97,907	98
Balance at November 30, 1997	4,021,553	17,221,262
Balance at November 30, 1998	4,021,553	$ 17,221,262

13. STOCK OPTIONS AND WARRANTS

(a) Stock options

From time to time, the Company grants incentive stock options to officers, directors and employees of the Company at market related prices.

Options to purchase 351,481 shares are outstanding at November 30, 1998 as follows:

Number of shares	Exercise price ($/share)	Expiry date
6,674	22.00	June 16, 1999
13,350	24.81	June 16, 1999
6,566	8.38	June 23, 2000
47,276	12.95	January 16, 2001
77,090	12.54	February 9, 2002
200,525	3.50	July 30, 2003
351,481		

(Stated in Canadian Dollars)

13. STOCK OPTIONS AND WARRANTS cont'd

(a) Stock options cont'd

Information regarding the Company's stock options for each of the periods is summarized as follows:

	Number of shares	Exercise price range ($/share)
Outstanding at November 30, 1995	154,732	7.24-27.04
Granted	114,023	13.27
Exercised	(13,630)	7.06
Expired	(21,818)	13.27-25.69
Adjustment to stock dividend	3,314	
Outstanding at November 30, 1996	236,621	8.59-26.39
Granted	135,818	11.60-15.61
Expired	(6,250)	11.60
Adjustment for stock dividend	9,127	
Outstanding at November 30, 1997	375,316	8.38-25.75
Granted	200,525	3.50
Expired	(224,360)	15.61-25.75
Outstanding at November 30, 1998	351,481	3.50-24.81

(b) Warrants

(i) During the period ending November 30, 1993, the Company issued "C" share purchase warrants entitling the holders to purchase 212,500 common shares of the Company at a price of $33.88 per share until September 16, 1997 and a price of $37.96 per share from September 17, 1997 to September 16, 1998. During the year ended November 30, 1998 these warrants expired.

(ii) During 1996, in connection with the issuance of the senior secured notes (Note 10(b(iv))), the Company issued 302,500 "F" series share purchase warrants entitling the holders to purchase 302,500 common shares of the Company at a price of $12.80 per share until June 18, 2001. Consideration of $825,000 was allocated to the warrants and recorded as Equity Component of Convertible Debt and Warrants in Shareholders' Equity.

During 1996, a stock dividend was declared which increased the number of "F" series share purchase warrants outstanding to 310,049 exercisable at a price of $12.80 per share.

During 1998, in connection with the amended loan agreement of the senior secured notes (Note 10(b(iv))), 281,862 of the transferable "F" series share purchase warrants exercisable at $12.80 per share were replaced by 281,862 "F4 and F5" series share purchase warrants exercisable at $3.50 until June 18, 2001. The balance of the "F" series share purchase warrants remains at an exercise price of $12.80 per share.

(iii) During 1998, in connection with amended loan agreement of the convertible loan (Note 10(a)), the Company issued 96,000 "G" series share purchase warrants entitling the holder to purchase 96,000 common shares of the Company at a price of $3.50 per share until October 16, 2001. During each six month period commencing October 16, 1998, the holder is entitled to exercise a maximum of 16,000 of the share purchase warrants.

(Stated in Canadian Dollars)

14. LOSS ON SALES CONTRACTS

Due to an unusually late harvest season in 1996, management decided to sell most of the Company's harvest under sales contracts using prices established on the basis of early harvest samples. During 1997, quality problems were discovered in some of the root which had been sold under these contracts. This resulted in quality claims and customer disputes and certain of these sales contracts were cancelled as a result of customers refusing to fully honour their purchase commitments. Root still in the Company's possession was repossessed under the collateral terms of the contracts.

The net loss resulting from price concessions and product repossessions has been reflected as a charge to earnings in fiscal 1997. Revenue from the sale of repossessed root was included in the results for fiscal 1997.

15. INCOME TAXES

The provision for income taxes (recovery) has been calculated as follows:

	1998	1997	1996
Provision for income taxes (recovery) at the Canadian statutory rate of 45.34%	$ (4,936,152)	$ (6,954,786)	$ 4,154,652
Adjustments:			
Foreign tax rate differential	1,485,858	2,282,674	(1,280,751)
Other	(19,706)	(30,888)	185,847
Provision for income taxes (recovery)	$ (3,470,000)	$ (4,703,000)	$ 3,059,748
Current income taxes	$ –	$ –	$ 106,145
Deferred income taxes	(3,470,000)	(4,703,000)	2,953,603
Provision for income taxes (recovery)	$ (3,470,000)	$ (4,703,000)	$ 3,059,748
Canada	$ (3,470,000)	$ (4,625,768)	$ 3,129,927
Far East and Caribbean	–	(77,232)	(70,179)
Provision for income taxes (recovery)	$ (3,470,000)	$ (4,703,000)	$ 3,059,748

The Company has losses for tax purposes of approximately $25,000,000 available to reduce future taxable income. The potential future tax benefit of these losses has been reflected in these financial statements as a reduction in deferred income tax payable.

16. COMMITMENTS

(a) The Company has entered into various operating leases ending in 2000. Total payments required under these leases are as follows:

Year ended	
1999	$ 197,256
2000	$ 176,983

(b) The Company is committed to agricultural land rentals for the next five years as follows:

Year ended	
1999	$ 708,480
2000	$ 645,753
2001	$ 447,541
2002	$ 341,005
2003	$ 111,300

(Stated in Canadian Dollars)

17. SEGMENTED REPORTING

The Company operates in one industry segment and two geographic regions. Information by geographic region is summarized as follows:

Year ended November 30, 1998	North America	Far East	Consolidated
Revenue - external	$ 3,387,592	$ 13,906,783	$ 17,294,375
Revenue - intercompany between regions	14,996,085	1,308,267	
Total revenue	$ 18,383,677	$ 15,215,050	
Net loss	$ (4,139,825)	$ (3,277,145)	$ (7,416,970)
Identifiable assets	$ 53,835,006	$ 10,775,092	$ 64,610,098

Year ended November 30, 1997	North America	Far East	Consolidated
Revenue - external	$ 823,492	$ 8,229,155	$ 9,052,647
Revenue - intercompany between regions	6,122,573	45,656	
Total revenue	$ 6,946,065	$ 8,274,811	
Net loss	$ (5,390,158)	$ (5,246,026)	$ (10,636,184)
Identifiable assets	$ 60,194,385	$ 14,040,092	$ 74,234,477

Year ended November 30, 1996	North America	Far East	Consolidated
Revenue - external	$ 2,601,333	$ 31,828,314	$ 34,429,647
Revenue - intercompany between regions	20,635,309	-	
Total revenue	$ 23,236,642	$ 31,828,314	
Net earnings	$ 4,332,755	$ 1,770,824	$ 6,103,579
Identifiable assets	$ 53,871,045	$ 31,093,996	$ 84,965,041

18. OTHER INFORMATION

(a) Cash provided from (used in) operations

A reconciliation of earnings from operations to cash provided from (used in) operations is as follows:

	1998	1997	1996
Net earnings (loss)	$ (7,416,970)	$ (10,636,184)	$ 6,103,579
Items not affecting cash:			
Depreciation and amortization	825,473	782,943	645,338
Cost of ginseng crops harvested	15,523,601	12,727,942	10,412,276
Provision on impairment of investment	3,372,413	–	–
Deferred income taxes	(3,470,000)	(4,703,000)	2,953,603
Non-controlling interests	(74,008)	(519,654)	189,312
	$ (8,760,509)	$ (2,347,953)	$ 20,304,108

(Stated in Canadian Dollars)

18. OTHER INFORMATION cont'd

(b) Changes in non-cash operating working capital items

	1998	1997	1996
Accounts receivable	$ 689,273	$ 20,581,544	$ (14,078,580)
Inventory	(338,396)	(13,134,285)	894,068
Ginseng crops	(4,931,566)	(5,374,163)	(4,137,409)
Prepaid and other assets	19,475	(350,561)	(408,254)
Accounts payable and accrued liabilities	(1,131,401)	2,228,328	675,147
Short-term borrowing	4,165	14,653	(207,680)
	$ (5,688,450)	$ 3,965,516	$ (17,262,708)

19. FINANCIAL INSTRUMENTS

During 1997, the Company retroactively adopted the new Canadian accounting requirement related to the presentation of financial instruments. As a consequence, certain convertible debt and share warrants have been recorded as equity instruments under Equity Component of Convertible Debt and Warrants. The difference between the principal amount and the carrying amount is recorded as a discount to debt, which is amortized and expensed over the life of that debt.

(a) Credit Risk

The Company is exposed to credit risk on accounts receivable from customers. A majority of its sales are made to a small number of customers who are concentrated in Asian markets. To manage its credit risk, the Company carefully monitors credit terms, investigates credit history and only grants credit to customers with established relationships or acceptable credit rating. In addition, the Company has obtained insurance coverage with the Canadian Export Development Corporation on certain receivables that are approved. Letters of credit may be used, or inventory may be held as security until payment is received when such relationships have not been established.

(b) Exchange Risk

The Company is exposed to currency exchange risk as a result of its international markets and operations. To manage its exchange risk, the Company finances in local currencies and conducts business through self sustaining foreign operations. The Company may hedge its U.S. dollar exposure by purchasing forward exchange contracts to cover net receipts.

(c) Estimated fair value of Financial Instruments which differ from carrying value are:

	1998		1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Term debt *(Note 10)*				
Convertible loan	$ 6,993,268	$ 6,993,268	$ 6,421,525	$ 6,530,641
Debentures and notes payable	21,774,738	20,762,782	23,475,260	23,927,933
Land purchase loan	-	-	118,500	118,500
Capital leases	334,541	334,541	369,315	369,315
	$ 29,102,547	$ 28,090,591	$ 30,384,600	$ 30,946,389

(Stated in Canadian Dollars)

20. CONTINGENT LIABILITY

During 1995, the Company entered into a partnership, President/Chai-Na-Ta Farms Partnership, in which it guaranteed the capital invested by the other partner in the event that the partnership does not have sufficient resources to make the return of capital. The Company also guaranteed a minimum rate of return of 8.5% on invested capital at the completion of the project which is anticipated to occur in 2001. The other partner contributed $5,625,000 of capital of which $2,500,000 has been returned to date.

During 1995, the Company entered into a joint venture, Skeetchestn/Chai-Na-Ta Xexe7ellp (Potent) Ginseng Joint Venture, from which the Company committed to purchase all ginseng root harvested by the joint venture at a price of $32 CDN per pound. The co-venturer's share of anticipated acres to be harvested are as follows:

Expected year of harvest	Number of acres
1999	25
2000	25
2001	36
2002	42
	128

Due to uncertainty over future yields, harvest quality and ginseng prices, the financial impact, if any, of this commitment can only be estimated between $600,000 and $1,200,000 for 1999 based on an assumption of a yield of 2,500 pounds per acre of crops harvested and a price range of $9US to $15US per pound.

21. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) which differ in some respects from U.S. GAAP. The significant differences between Canadian and U.S. GAAP which affect the Company's financial statements are summarized below:

(a) Accounting for capitalization of interest

Under U.S. GAAP, the portion of interest relating to expenditures on ginseng crop costs would not be eligible for capitalization to ginseng crop costs. The amount would be expensed in the current year.

(b) Financial Instruments

Canadian GAAP, requires the separate presentation on the balance sheet of the liability and equity components of convertible debt and warrants. The capitalized amounts are accounted for as a discount to the debt instrument and the discount is amortized over the term of the debt.

U.S. GAAP, does not permit separate presentation of these financial instruments. The amortization of debt discounts arising from recording the equity component of financial instruments would not be an expense. Therefore the interest expense would be charged to earnings in accordance with the stated terms of the debenture.

(c) Accounting for stock dividends

Under U.S. GAAP, the issuance of a stock dividend would be accounted for as a dividend requiring capitalization of retained earnings for the fair value of additional shares issued. The capitalization would be effected by charging retained earnings and crediting contributed surplus.

21. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES cont'd

(d) Stock options

The Company has adopted Accounting Principle Board Opinion No. 25 regarding the accounting for stock option plans. Accordingly, since stock options are granted at the fair market value of the share on the day preceding the date granted there is no compensation to be recognized under U.S. GAAP.

(e) Accounting for joint ventures

U.S. GAAP requires investments in joint ventures to be accounted for using the equity method, while under Canadian GAAP, the accounts of joint ventures are proportionately consolidated. However, under rules promulgated by the Securities and Exchange Commission, a foreign registrant may, subject to the provision of additional information, continue to follow proportionate consolidation for purposes of registration and other filings, notwithstanding the departure from U.S. GAAP. Consequently, the balance sheets have not been adjusted to restate the accounting under U.S. GAAP and additional information concerning the Registrant's interests in joint ventures is presented in Note 11.

(f) Statement of cash flows

Under U.S. GAAP, changes in lines of credit and short-term borrowings are considered financing activities in the Statement of Changes in Financial Position.

Under U.S. GAAP, the conversion of debt described in Note 10(a) and the acquisition of investment described in Note 4(b) would be classified as non-cash transactions and not included in the statement of cash flows and would be reported supplementally.

(g) Recent pronouncements

(i) In June 1997, the Financial Accounting Standards Board issued Statement No. 130, Reporting Comprehensive Income (SFAS 130), which is required to be adopted for fiscal years beginning on or after December 15, 1997. SFAS 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Reclassification of financial statements for earlier periods presented is required. The impact of SFAS 130 on the Company's financial statements is not expected to be material.

(ii) In June 1997, the Financial Accounting Standards Board issued Statement No. 131, Disclosures About Segments of an Enterprise and Related Information (SFAS 131), which is required to be adopted for fiscal years beginning on or after December 15, 1997. SFAS 131 establishes new standards for the reporting of segmented information in annual financial statements and requires the reporting of certain selected segmented information in interim reports to shareholders. The impact of SFAS 131 on the Company's financial statements is not expected to be material.

(iii) In June 1998, the Financial Accounting Standards Board issued Statement No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities, which standardizes the accounting for derivative instruments. SFAS 133 is effective for all fiscal years beginning after June 15, 1999. The impact on the Company's financial statements is not determinable at this time.

(Stated in Canadian Dollars)

21. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES cont'd

The differences between Canadian and U.S. GAAP and their effect on the Company's consolidated financial statements are summarized below:

		1998	1997	1996
Net (loss) earnings as reported under Canadian GAAP		$ (7,416,970)	$ (10,636,184)	$ 6,103,579
Adjustment to reflect differences:				
Accounting for interest	(a)	(1,165,942)	(1,285,011)	(303,753)
Financial instruments	(b)	159,873	201,224	118,348
Net (loss) earnings under U.S. GAAP		$ (8,423,039)	$ (11,719,971)	$ 5,918,174
Basic (loss) earnings per share		$ (2.09)	$ (2.91)	$ 1.49
Diluted (loss) earnings per share		$ (2.09)	$ (2.91)	$ 1.31
Weighted average number of shares		4,021,553	4,021,553	3,982,677
Cash flow from operating activities under Canadian GAAP		$ (3,742,382)	$ (5,607,284)	$ (2,804,648)
Short-term borrowings	(f)	–	–	4,943,055
U.S. GAAP		$ (3,742,382)	$ (5,607,284)	$ 2,138,407
Cash flow from financing activities under Canadian GAAP		$ (1,419,153)	$ 1,396,520	$ 17,732,342
Short-term borrowing	(f)	–	–	(4,943,055)
Line of credit	(f)	4,600,083	1,007,710	(5,655,000)
Repayment of term debt	(f)	–	–	2,061,250
Issuance of share capital	(f)	–	–	(2,061,251)
U.S. GAAP		$ 3,180,930	$ 2,404,230	$ 7,134,286
Cash flow from investing activities under Canadian GAAP		$ (796,922)	$ (1,854,651)	$ (2,683,542)
Advances to Unique Formulations Inc.	(f)	–	–	339,000
Acquisition of Unique Formulations Inc.	(f)	–	–	(339,000)
U.S. GAAP		$ (796,922)	$ (1,854,651)	$ (2,683,542)

21. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES cont'd

		1998	1997
ASSETS			
Inventory - Canadian GAAP		$ 16,549,615	$ 16,211,219
Interest capitalized	(a)	(1,651,468)	(1,176,357)
Financial instruments	(b)	(58,031)	(53,157)
U.S. GAAP		$ 14,840,116	$ 14,981,705
Ginseng crops current - Canadian GAAP		$ 10,318,142	$ 11,277,297
Interest capitalized	(a)	(1,224,538)	(1,196,874)
Financial instruments	(b)	(58,031)	(60,039)
U.S. GAAP		$ 9,035,573	$ 10,020,384
Ginseng crops - Canadian GAAP		$ 14,961,861	$ 15,867,255
Interest capitalized	(a)	(2,390,504)	(1,885,999)
Financial instruments	(b)	(116,062)	(118,928)
U.S. GAAP		$ 12,455,295	$ 13,862,328
Other assets - Canadian GAAP		$ 2,372,025	$ 2,649,705
Financial instruments	(b)	44,311	65,396
U.S. GAAP		$ 2,416,336	$ 2,715,101
LIABILITIES			
Term debt - Canadian GAAP		$ 28,241,951	$ 21,642,038
Financial instruments	(b)	300,000	633,677
U.S. GAAP		$ 28,541,951	$ 22,275,715
Deferred income taxes - Canadian GAAP		$ 3,134,781	$ 6,596,781
Interest capitalized	(a)	(2,387,836)	(1,931,135)
U.S. GAAP		$ 746,945	$ 4,665,646
Non-controlling interests - Canadian GAAP		$ -	$ 74,008
Financial instruments	(b)	63,830	53,414
U.S. GAAP		$ 63,830	$ 127,422
SHAREHOLDERS' EQUITY			
Contributed surplus - Canadian GAAP		$ -	$ –
Stock dividend	(c)	8,374,397	8,374,397
U.S. GAAP		$ 8,374,397	$ 8,374,397
Equity component of convertible debt and warrants			
Canadian GAAP		$ 1,062,069	$ 1,416,092
Financial instruments	(b)	(1,416,092)	(1,416,092)
Amortization of financial instruments	(b)	354,023	–
U.S. GAAP		$ -	$ –
Retained earnings - Canadian GAAP		$ 2,465,244	$ 9,528,191
Interest capitalized	(a)	(2,878,674)	(2,328,095)
Financial instruments	(b)	510,426	562,273
Stock dividend	(c)	(8,374,397)	(8,374,397)
Amortization of financial instruments	(b)	(354,023)	–
U.S. GAAP		$ (8,277,401)	$ (612,028)

22. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

23. PRIOR YEARS' AMOUNTS

Certain of the prior years' amounts have been reclassified to conform to the current year's presentation.

24. SUBSEQUENT EVENTS

(a) During February 1999, the Company finalized an agreement to acquire the remaining 10% interest in Unique Formulations, Inc. (Note 4(b)).

(b) During February 1999, the Company made the decision to close its Mexican operation.

Gerry A. Gill, *President & Chief Executive Officer*
Mr. Gill, a resident of British Columbia, Canada, has over 30 years experience in corporate management and marketing. From 1982 to 1990, he was Executive Vice President of Yamashina International, a Japanese-based firm producing and marketing industrial fasteners. In June 1993, Mr. Gill assumed the Presidency of Chai-Na-Ta.

Joseph S. Crowder, *Vice-President of Human Resources & Administration*
Mr. Crowder has an extensive background in human resources and administrative management in both the private and public sectors. from 1988 to 1992, he served as Vice Chairman at the Industrial Relations Council of B.C., now known as the Labour Relations Board.

Landon Barretto, *Director*

Mr. Barretto is the President and CEO of Barretto Pacific Corporation, a Nevada company that provides financial intermediary services to public companies. Mr. Barretto has founded several companies and conducted business internationally. From 1987 through 1993 he served as President of Landon Barretto Corporation, a financial intermediary providing financing to privately held companies.

Michael Harcourt, *Director*

Mr. Harcourt, a resident of British Columbia, Canada, has had a long and distinguished career in municipal and provincial politics. Mr. Harcourt served as British Columbia's 30th Premier, taking office in October 1991 and retiring from political life in 1996.

Dr. Dennis Awang, *Director*

Prior to establishing his own herbal science consulting practice, Dr. Awang was a research scientist with Health and Welfare Canada for over 24 years. In addition to publishing over 70 research and scientific papers, Dr. Awang sits on a variety of nutraceutical industry advisory boards.

Dr. Don Rix, *Director*

Dr. Rix is an active member of both the British Columbia Medical Association and the Canadian Medical Association, serving on a variety of committees. He served as Chairman of the Board of Directors at the British Columbia Institute of Technology, and as Clinical Assistant Professor at the University of British Columbia's Faculty of Medicine. Today Dr. Rix is Chairman of MDS Laboratory Services in Burnaby, B.C., and is Director on a number of Boards in the medical laboratories industry.

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Dr. Dennis Awang
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Audit Committee Members

OFFICERS
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President & CEO

Joseph S. Crowder
Vice-President of Human Resources and Administration

Virginia Nguyen
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STOCK LISTING
The Toronto Stock Exchange
The NASDAQ Stock Market

TRADING SYMBOLS
"CC" - TSE
"CCCFF" - NASDAQ

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Tuesday, May 18, 1999
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Chai-Na-Ta/Skeetchestn Joint Venture, B.C.

Brokering

North American Ginseng Enterprises Ltd. (NAGEL) Hong Kong

Processing and Grading

Wuxi Zhongjia American Ginseng Natural Tonics Co. Ltd., Wuxi, China

Manufacturing

Dalian Pegasus Ginseng Pharmaceutical Co. Ltd., Dalian, China
Qingdao Hua Zhong Pharmaceuticals - exclusive manufacturing agreement
Wuxi Zhongjia American Ginseng Natural Tonics Co. Ltd., Wuxi, China

Marketing & Distribution

Asia: Chai-Na-Ta (Asia) Ltd., Zhongtian/Dashan Brands
North America:
- *Unique Formulations USA*
- *Private Labels*
- *Original Equipment Manufacturers (OEMs)*

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